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October 30, 1987

OCTOBER 1987 MONTHLY REPORT

# Surveys of Consumers

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## *THE CRASH AND THE CONSUMER*

- The good news: The fear and panic on Wall Street has not swept Main Street. The bad news: Consumer confidence has been weakened, and is vulnerable to further declines in the coming months.

- In the October 1987 survey, the Index of Consumer Sentiment fell to 89.3 from 93.6 in September. Although this represents a relatively small overall decline, the entire decline was due to sharply lower confidence levels since the stock market crash. Based on interviews conducted prior to October 19, the Index stood at 92.5; from October 19th to the 28th, the Index averaged a much lower 82.4. The sharpest declines were in prospects for the general economy, while personal financial expectations remained largely unchanged. Caution must be used in the interpretation of these results because of the small number of interviews conducted from the 19th to the 28th of October (153)—although the increased pessimism toward prospects for the general economy following the market crash was statistically significant even with the small sample size.

- Prospects for business conditions during the year ahead as well as over the next five years showed the greatest declines since October 19th. Bad times financially during the next 12 months were expected by 48 percent of all families after the crash, up from 34 percent earlier in the month—which was already somewhat higher that the 31 percent recorded in October 1986. Expectations of good times financially fell to 34 percent since October 19, down from 47 percent earlier in October, and 55 percent in October 1986.

- Prospects for the economy over the next five years have also deteriorated. During early October 1987, as in October 1986, approximately equal numbers of consumers expected good as expected bad times (39 versus 41 percent). Since October 19th, opinions have sharply tilted toward unfavorable longer term prospects: 57 percent expected bad times, compared with 29 percent that expected good times.

- In contrast to the immediate sharp declines in the outlook for the general economy following the stock market crash, personal financial prospects have remained unchanged thus far. The proportion of consumers that expected their financial situation to improve stood at 37 percent before the 19th, and at 38 percent in the last part of October. These readings are just above the month earlier figure of 35 percent, and equal to the year earlier figure of 37 percent. Importantly, the proportion of consumers that expected worsened finances remained low—10 percent prior to the 19th, 9 percent after.

- Attitudes toward buying conditions have weakened, both before and since the stock market crash. Favorable attitudes toward buying conditions for vehicles fell to 54 percent since October 19th, from 61 percent earlier in the month, which was already below the 66 percent recorded in September, and the 72 percent recorded a year earlier. The ending of the last round of sales incentives and discounts had the most influence on the recorded losses.

- Favorable home buying attitudes were held by 65 percent of all families since October 19th, down from 72 percent earlier in the month, and 81 percent one year earlier. Similarly, attitudes toward buying conditions for large household durables fell to 63 percent since October 19th, down from 72 percent earlier in October, and 76 percent one year earlier.

- Based on preliminary estimates, the stock market crash has diminished consumer confidence. The extent of the damage is, however, as yet undetermined. When new economic developments represent a dramatic departure from prior expectations, the heightened uncertainty prompts greater information seeking in an attempt to resolve the discrepancy. Although beliefs do not immediately change, the frame of reference used to process new information does. In the present context, consumers' perspectives have changed from whether ongoing developments indicate somewhat slower or faster economic growth, to whether they indicate that financial dislocations can be contained or will spread through the entire economy.

- At present, the impact of the crash has been concentrated on attitudes toward the general economy. It is the very uncertainty about the consequences of the crash that has limited its initial impact to these more general economic expectations. The question that consumers are seeking to answers is: "What does it mean for me personally?" The answer has yet to be determined by most consumers, and is the reason for the lack of initial impact on personal financial expectations.

- Needless to say, the current situation is volatile. Whether a recession eventually develops can not be determined from these data, as the response by consumers has yet to move past the initial reactions. Nonetheless, the data indicate weakening sales, and a much larger potential downside risk. Much depends on ongoing market developments, and the actual extent of the crash fallout.

- Shifts in government economic policies will be an important factor in shaping the emerging responses by consumers. The ideal, of course, would be to find ways to lower interest rates without escalating domestic inflation, and to reduce the budget deficit without raising personal income taxes. Determining and achieving the optimal balance among these conflicting goals is the Gordian knot that policy makers must now attempt to untie. Perhaps even more important than these specific policy goals, consumers need to feel that policy makers understand the problems, and are taking forceful steps to resolve them.

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The usual booklet of tables and charts for the October 1987 survey will be sent shortly.

*TABLE A*

*INDEX OF CONSUMER SENTIMENT AND ITS COMPONENTS*

| Index Measures (Table Number) | Oct 1986 | Sept 1987 | Oct 1987 | | |
|---|---|---|---|---|---|
| | | | All | BC | AC |
| Index of Consumer Sentiment (1) | 95.6 | 93.6 | 89.3 | 92.5 | 82.4 |
| Current Index (3) | 108.9 | 108.3 | 103.1 | 105.3 | 98.5 |
| Expected Index(3) | 87.1 | 84.2 | 80.4 | 84.3 | 72.0 |
| Personal Finances | | | | | |
| Current (3) | 120 | 119 | 118 | 117 | 121 |
| Expected (3) | 127 | 124 | 128 | 128 | 129 |
| Business Conditions | | | | | |
| One year ahead (3) | 124 | 122 | 105 | 113 | 87 |
| Five years ahead (3) | 99 | 92 | 90 | 98 | 72 |
| Buying Conditions | | | | | |
| Household Durables (3) | 162 | 162 | 149 | 156 | 134 |
| Homes (23) | 164 | 146 | 144 | 148 | 135 |
| Vehicles (25) | 151 | 141 | 127 | 133 | 115 |
| Cases | 651 | 650 | 500 | 347 | 153 |

Note: BC=Interview conducted before October 19th.
AC=Interview conducted from the 19th to the 28th of October.

*TABLE B*

*CONSUMER SENTIMENT MEASURES*

| Question (Table Number) | Oct 1986 | Sept 1987 | Oct 1987 All | Oct 1987 BC | Oct 1987 AC |
|---|---|---|---|---|---|
| Current Personal Finances (4) | | | | | |
| Better | 44% | 42% | 43% | 41% | 48% |
| Worse | 24% | 23% | 25% | 24% | 27% |
| Expected Personal Finances (6) | | | | | |
| Better | 37% | 35% | 37% | 37% | 38% |
| Worse | 10% | 11% | 9% | 10% | 9% |
| Current Business Conditions (12) | | | | | |
| Better | 47% | 49% | 49% | 52% | 43% |
| Worse | 35% | 34% | 35% | 32% | 39% |
| One Year Business Outlook (15) | | | | | |
| Good Times | 55% | 51% | 43% | 47% | 34% |
| Bad Times | 31% | 29% | 38% | 34% | 48% |
| Five Year Business Outlook (16) | | | | | |
| Good Times | 41% | 37% | 36% | 39% | 29% |
| Bad Times | 42% | 45% | 46% | 41% | 57% |
| Unemployment Expectations (17) | | | | | |
| Lower | 10% | 13% | 17% | 20% | 12% |
| Higher | 33% | 29% | 29% | 26% | 38% |
| Interest Rate Expectations (18) | | | | | |
| Higher | 50% | 66% | 67% | 70% | 61% |
| Lower | 15% | 7% | 11% | 9% | 15% |
| Household Durables (21) | | | | | |
| Good Time to Buy | 76% | 75% | 69% | 72% | 63% |
| Bad Time to Buy | 14% | 13% | 20% | 16% | 28% |
| Homes (23) | | | | | |
| Good Time to Buy | 81% | 71% | 70% | 72% | 65% |
| Bad Time to Buy | 17% | 25% | 26% | 24% | 30% |
| Vehicles (25) | | | | | |
| Good Time to Buy | 72% | 66% | 58% | 61% | 54% |
| Bad Time to Buy | 21% | 25% | 31% | 28% | 39% |
| Cases | 651 | 650 | 500 | 347 | 153 |

Note: BC = Interview conducted before October 19th.
AC = Interview conducted from the 19th to the 28th of October.